

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 AGR-10 INT-05 /125 W

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R 280931Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6438

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 1291

PASS FEDERAL RESERVE, LABOR AND EXIM BANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF JAN 21-28

1. SUMMARY: RIME MIN MIKI AND SENIOR MINS STRESS IMPORTANCE OF ECONOMIC RECOVERY FOR JAPAN. OFFICIAL FORECAST IS FOR 5.6 PERCENT INCREASE IN GNP FOR COMING FISCAL YEAR, BEGINNING APRIL 1. FORECAST WAS PRIVATELY VIEWED AS TOO OPTIMISTIC BY SOME KNOWLEDGEABLE OFFICIALS. CURRENT RECOVERY APPEARS TO HAVE STALLED ON BASIS OF LATEST ASSESSMENTS AND STATISTICS. NEVERTHELESS, STOCK AND BOND MARKETS CONTINUE TO ADVANCE. B/P DETERIORATED IN SECOND HALF OF 1975 DESPITE GROWING EXPORT VOLUME.

2. COPING WITH THE CURRENT RECESSION, DECLARED TO BE AMONG THE "MOST URGENT TASKS" FACING GOJ IN DIET SPEECH  
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BY PRIME MIN MIKI. PM SAID CURRENT GOJ TASKS INCLUDE

SMOOTH SHIFT FROM HIGH ECONOMIC GROWTH OF PAST YEARS TO "SOUND AND STABLE" GROWTH IN FUTURE, AND COOPERATION WITH OTHER NATIONS TO AID WORLD ECONOMIC RECOVERY. FINANCE MIN OHIRA TOLD PARLIAMANE THAT SPECIFIC AIMS OF GOJ ECONOMIC POLICY IN COMING YEAR WERE (A) CONTINUING CALM ON PRICE FRONT, (B) ESTABLISHING B/P EQUILIBRIUM, AND (C) IMPROVING STATE OF JAPAN'S NATIONAL AND LOCAL PUBLIC FINANCE BY REDUCING EXTENSIVE BORROWING REQUIREMENTS. DEPUTY PM FUKUDA REITERATED MIKI'S CONCERN ABOUT SLOW STATE OF RECOVERY, COMMENTING THAT CURRENT ECONOMIC SLACK WAS KE PRIMARILY TO STAGNATION OF EXPORTS AND CONTINUING SLOW BUSINESS INVESTMENT.

3. GOJ REVISED REAL GROWTH TARGET FOR CURRENT FISCAL YEAR OF 2.6 PERCENT WILL BE "DIFFICULT TO ACHIEVE" ACCORDING TO BOJ GOVERNOR MORINAGA. AS FOR NEXT YEA, THE JFY 1976 TARGET OF 5.6 PERCENT, REAL GROWTH "IS QUITE POSSIBLE AND SHOULD BE DONE BY ALL MEANS," THE GOV SAID. ECHOING VIEW THAT CURRENT PACE OF RECOVERY IS INDEED VERY SLOW, LOCAL BUR CHIEFS OF THE MOF SAID THAT WHILE BUSINESS WAS PICKING UP IN SOME INDUSTRIES, SLOWDOWN WOULD BE PROLONGED IN CERTAIN KEY SECTORS. ACCORDING TO THE BUR CHIEFS, SECTORS WHICH APPEAR TO BE RETURNING TO NORMAL OPERQTING RATES INCLUDE ELECTRIC APPLIANCES, AUTO EXPORTS, AND TEXTILES. HOWEVE, OUTPUT REPORTEDLY CONTINUES TO DECLINE IN IMPORTANT STEEL AND NON-FERROUS METALS INDUSTRIES.

4. NOV DECLINES IN INDUSTRIAL OUTPUT AND SHIPMENTS WERE EVEN LARGER THAN PREVIOUSLY ESTIMATED, ACCORDING TO REVISED FIGURES RELEASED BY MITI. THIS CONFIRMS OTHER INDICATOS THAT ANTICIPATED RECOVERY FOLLOWING ANNOUNCEMENT OF PHASE IV RECOVERY (SEPT 17, 1975), IS NOT BEING ACHIEVED. NOV PRODUCTION INDEX FOR MINING AND MANUFACTURING (JEI 212), DECLINED 1.7 PERCENT FROM PRIOR MONTH. SHIPMENTS (JEI 239) RECORDED EVEN LARGER 2.4 PERCENT DECLINE FROM OCT LEVEL; NOV FIG OF 115.7 (1970-100), IS EVEN BELOW SHIPMENTS FIG RECORDED IN APRIL 1975. DETAILS OF NOV PRODUCTION SHIPMENTS AND INVENTORIES ALREADY REPORTED TOKYO 1204.

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5. JAPAN'S REAL GROWTH OFFICIALLY FORECAST AT 5.6 PERCENT FOR JFY 1976, DESPITE DESULTORY ECONOMIC PERFORMANCE IN RECENT MONTH. FORECAST PREDICTS RISE IN CPI OF ONLY 8 PERCENT DURING FISCAL YEAR, BEGINNING APRIL 1976. ALTHOUGH GNP COMPONENTS PROVIDED BY FORECAST (RELEASED JAN 23), ARE IN NOMINAL TERMS, COMPARISON OF THE FIGURES WITH GOJ FORECAST OF PRICE

TRENDS INDICATES LITTLE IF ANY INCREASE FOR REAL INVESTMENT IN PLANT AND EQUIPMENT. GOVERNMENT APPARENTLY ANTICIPATES MAJOR THRUST IN GROWTH WILL COME FROM PRIVATE CONSUMPTION, HOUSING INVESTMENT, AND GOJ SPENDING. LESS SANGUINE VIEW OF JAPAN'S GROWTH PROSPECTS IN COMING FISCAL YEAR WAS PRESENTED BY EPA AND BOJ FORECASTERS IN PRIVATE CONVERSATIONS WITH FINATT.. YVE OFFICIALS SAID REAL GROWTH RATE LIKELY TO BE UNDER 5 PERCENT AND AS LOW AS 4 PERCENT. EVEN MORE PESSIMISTIC VIEW OF JAPAN'S OUTLOOK WAS PRESENTED BY OSAMU SHINOMURA, ARCHITECT OF JAPAN'S "INCOME DOUBLING" GROWTH PLAN OF THE 1960S, IN SEMINAR AT JAPAN PRODUCTIVITY CENTER. SHINOMURA SAID JAPAN WOULD REGISTER ZERO GROWTH IN COMING FISCAL YEAR. FOLLOWING TABLES SHOW OFFICIAL GOJ FORECAST FOR DOMESTIC ECONOMY AND BALANCE OF PAYMENTS FOR JFY 1976 (APRIL 1976-MARCH 1977):

## DOMESTIC ECONOMIC INDICATORS (PCT CH FROM PRIOR YEAR)

	JFY 1975 (ESTIMATE)	JFY 1976 (FORECAST)
REAL GNP	2.6	5.6
NOMINAL GNP	9.1	13.0
PRIVATE CONSUMPTION	15.1	13.7
PRIVATE INVESTMENT	-7.3	11.7
DWELLINGS	14.8	15.3
PLANT & EQUIP.	-8.9	7.0
WPI (NOTE)	2.2(4.6)	5.6(4.8)
CPI (NOTE)	10.5(9.9)	8.8(8.0)

(NOTE PCT CH DURING JFY SHOWN IN PARENTHESES)

## BALANCE OF INTERNATIONAL PAYMENTS (BILLION DOLLARS)

	JFY BEGINNING APRIL 1	
TRADE BALANCE	4.2	4.0

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EXPORTS	54.6	61.7
IMPORTS	50.4	57.7
CURRENT ACCOUNT	-1.7	-2.7
LONG-TERM CAPITAL	-1.7	-2.2
BASIC BALANCE	-3.4	-4.9

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INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 AGR-10 INT-05 /125 W

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R 280931Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6439

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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PASS FEDERAL RESERVE, LABOR AND EXIM BANK

6. IN CALENDAR YEAR 1975, JAPAN'S B/P POSITION IMPROVED SHARPLY COMPARED WITH 1974. TRADE SURPLUS ROSE TO \$5.1 BIL IN 1975 VERSUS \$1.4 BIL IN PRIOR YEAR, WHILE CURRENT ACCOUNT DEFICIT NARROWED TO \$0.7 BIL FROM \$4.7 BIL IN 1974. REDUCED CAPITAL OUTFLOW BROUGHT 1975 DEFICIT ON BASIS BALANCE DOWN TO \$1.1 BIL, IN CONTRAST TO MASSIVE \$8.6 BIL DEFICIT OF 1974 (DETAILED REPORTED TOKYO 1137). HOWEVER, IMPROVEMENT OCCURRED DURING FIRST HALF OF 1975 AND IN LATTER HALF JAPAN'S B/P DETERIORATED SUBSTANTIALY. TRADE SURPLUS (S.A). DROPPED TO \$1.4 BIL DURING JULY-DEC PERIOD, BARELY ONE-THIRD OF \$3.8 BIL SURPLUS REGISTERED IN FIRST SIX MONTHS OF THE YEAR. BASIC BALANCE MOVED FROM \$1.3 BIL SURPLUS DURING FIRST HALF TO \$2.3 BIL DEFICIT IN SECOND HALF, AND OFFICIAL SETTLEMENTS BALANCE FROM \$2.6 BIL SURPLUS TO \$3.3 BIL DEFICIT. THE YEN STRENGTHTHENED

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SLIGHTLY DURING SECOND QUARTER (TO 292 YEN/DOL), THEN GRADUALLY WEAKENED, REACHING 303 YEN/DOL IN FOURTH

QUARTER. ON QUANTUM BASIS, JAPAN'S EXPORTS HAVE SHOWN HEALTHY IMPROVEMENT DURING SECOND HALF OF 1975, RECORDING 22.2 PERCENT ANNUAL RATE OF GROWTH (S.A.) FOR JULY-DEC PERIOD. PERCENTAGE GROWTH WAS MUCH SHARPER IN FOURTH QUARTER (UP 7.9 PERCENT) THAN IN JULY-SEPT PERIOD. IMPORT VOLUME, ON THE OTHER HAND, CONTINUED TO DECLINE THROUGHOUT 1975 EXCEPT FOR THIRD QUARTER. HOWEVER, RATE OF DECLINE HAS BEEN SLOWING DOWN STEADILY DURING YEAR (FROM 7.3 PERCENT DECLINE IN JAN-MAR TO 1.7 PERCENT DROP IN OCT-DEC). AS A WHOLE YEAR, JAPAN'S EXPORT VOLUME IN 1975 INCREASED SLIGHTLY BY 1.8 PERCENT OVER 1974 LEVEL WHILE IMPORT VOLUME DECLINED SHARPLY BY 13.9 PERCENT. PRICES OF JAPAN'S EXPORTED GOODS (UNIT VALUES IN DOLS), CONTINUED TO DECLINE THROUGHOUT 1975 WITH NO SIGN OF RECOVERY. PRICES OF IMPORTED GOODS HAVE BEEN RISING AT NEARLY 20 PERCENT ANNUAL RATE DURING SECOND HALF, IN CONTRAST TO 13.9 PERCENT ANNUAL RATE OF DECLINE IN FIRST SIX MONTHS OF 1975. PRICES OF BOTH JAPAN'S EXPORTS AND IMPORTS INCREASED IN 1975 (BY 1.5 PERCENT AND BY 10.2 PERCENT, RESPECTIVELY), OVER 1974 LEVEL. FOLLOWING ARE QUARTERLY DEVELOPMENT OF QUANTUM AND UNIT VALUE INDICES (CUSTOMS BASIS, DOLLAR BASIS, SEASONALLY ADJUSTED), AND JAPAN'S QUARTERLY B/P IN 1975. (NOTE: BALANCES IN FOLLOWING TABLE ARE BASED ON SEASONALLY ADJUSTED TRADE DATA.)

CY 1975 JAN-MAR APR-JUNE JULY-SEPT OCT-DEC

PERCENT CHANGE FROM PRIOR QUARTER

QUANTUM INDEX (ON BASIS OF S.A. MONTHLY DATA)

EXPORTS MIN 4.2 MIN 3.1 2.4 7.9

IMPORTS MIN 7.3 MIN 3.9 6.5 MIN 1.7

UNIT VALUE INDEX

EXPORTS MIN 2.6 MIN 1.1 MIN 4.2 MIN 2.9

IMPORTS MIN 4.3 MIN 2.4 2.5 6.6

IN MILLIONS FF DOLLARS

EXPORTS (S.A.) 14,718 13,605 12,962 13,714

IMPORTS (S.A.) MIN 12,760 MIN 11,721 MIN 12,266 MIN 13,005

TRADE BALANCE

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(S.A) 1,958 1,884 696 709

CURRENT ACCOUNT 378 502 MIN 804 MIN 701

LONG-TERM CAPI-

TAL 207 215 MIN 116 MIN 640

BASIC BALANCE 585 717 MIN 920 MIN 1,341

OFFICIAL SETTLE-

MENTS BALANCE 1,872 749 MIN 1,656 MIN 1,658

YEN/DOL RATE

(AVG FOR QUTR) 293.41 292.35 297.84 303.49

7. BULLISH STOCK AND BOND MARKETS CONTINUED: TOKYO  
DOW-JONES STOCK PRICE INDEX CONTINUED TO RISE, HITTING  
18-MONTH HIGH OF 4,660.46 YEN ON JAN 27. VOLUME WAS  
ACTIVE AT 456 MIL SHARES TRADED. STOCK PRICE ADVANCE  
WAS ATTRIBUTED TO NEWS OF SUBSTANTIAL IMPROVEMENT IN  
JAPAN'S B/P POSITION IN DEC AS WELL AS SHARP ADVANCES  
IN OVERSEAS STOCK MARKETS. DURING PAST MONTH TOKYO  
STOCK PRICES HAVE INCREASED BY 302 YEN OR 6.9 PERCENT.  
BOND PRICES ALSO CONTINUED TO RISE DURING PAST THREE  
WEEKS. ON JAN 22, YIELD ON JAPAN TELEPHONE AND TELE-  
GRAPH BONDS DECLINED BELOW THE 9 PERCENT LEVEL (TO 8.99  
PERCENT), FOR THE FIRST TIME SINCE MARCH 1975. BULLISH  
BUYING OF BONDS WAS PARTLY ATTRIBUTED TO REDUCTION IN  
CALL RATE BY 0.5 PERCENT TO 7.00 PERCENT (UNCONDITIONAL)  
ON JAN 21. LOWER CALL RATE HAS PROMPTED MAJOR SUPPLIERS OF  
CALL MARKET FUNDS TO BUY PUBLIC AND INDUSTRIAL BONDS RATHER  
THAN SUPPLY FUNDS TO SHORT-TERM MONEY MARKETS.  
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## Message Attributes

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